

Abstract

The MCC compact with the Philippines was a five-year investment of \$385 million. The \$30 million Revenue Administration and Reform Project (RARP) is the subject of a performance evaluation, written up in two reports: “Process Evaluation of the MCA-Philippines Revenue Administration Reform Project” and “Baseline and Follow-up Analysis of Survey of Taxpayers and Officials.”

The RARP addressed the need to raise tax revenues and reduce tax evasion and revenue agent-related corruption by increasing the efficiency and sustainability of revenue collection through four main activities. By compact end, the first stage of the new Electronic Tax Information System (eTIS) had been implemented in 13 Bureau of Internal Revenue (BIR) offices; revenue from new and existing business registrants had increased from 822,624 million PhP to 1,441,571 million PhP and; as part of the Revenue Integrity Activity, 220 people had been charged with graft, corruption, lifestyle and/or criminal cases.

The evaluation found that:

- At least some portion of all the components were implemented, although to a scaled-back level, with mostly positive staff feedback.
- The new systems seem to be more efficient, but their sustainability is at risk because the systems had limited capacity to handle additional users, and there is wide variation in the skills of BIR staff.
- Tax revenues have increased, as has revenue collected per audit.
- Taxpayers’ perception of corruption (that there is a ‘great deal of corruption’) has decreased significantly for the Bureau of Internal Revenue (from 52 to 46 percent) and for the Department of Finance (from 48 to 38 percent), and has remained essentially the same for the Bureau of Customs (from 74 to 72 percent).

The main lessons learned were:

- Projects involving major IT systems installation and adoption must ensure no more than a **manageable** level of customization to off-the-shelf software. For eTIS, the volume of software customization was one of the main sources of implementation delays, which ultimately reduced the scope and reach of the final product.
- The RIPS improved the investigative unit’s ability to bring cases to the point of prosecution. However, getting to case resolution still takes more than 3 years on average because of actors in the judicial system and the Department of Finance. In the future, MCC should address this risk by including other entities in the project, assuming buy-in can be obtained.
- The Public Awareness Campaigns won awards and appeared to improve taxpayers’ understanding

of their tax obligations. Even so, the impact on tax compliance was not measured by either the PR firm or the evaluation. In the future, MCC should track public awareness efforts in relation to the desired behavioral change (in this case, tax compliance) to better inform which campaigns should be continued and which should be closed. This strategy will require close coordination between implementers and M&E.

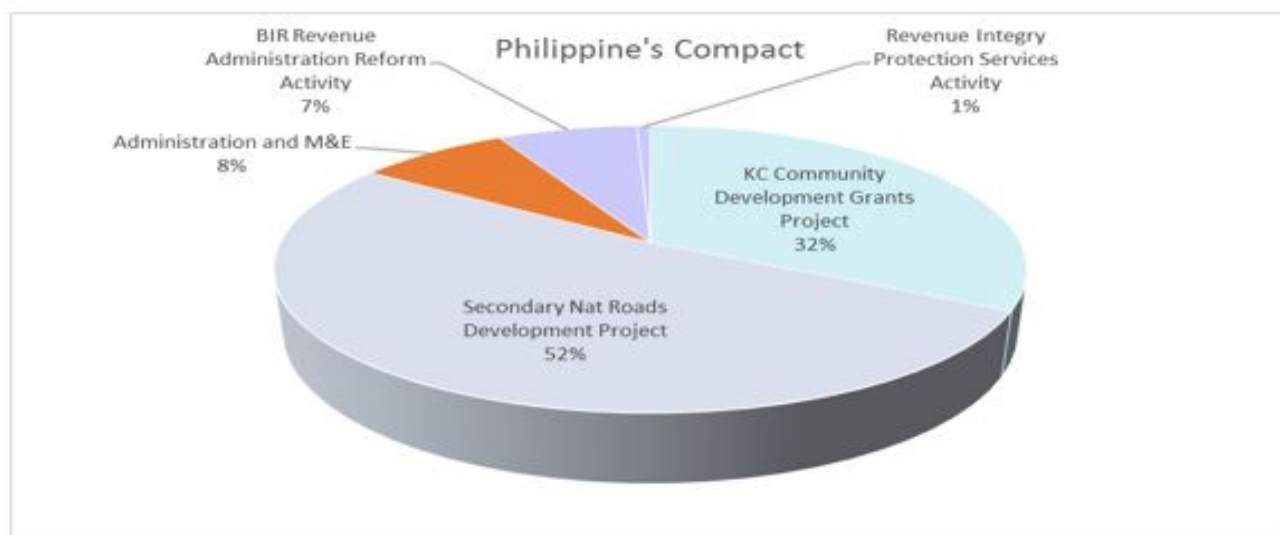
- This project was the first time that MCC engaged the International Monetary Fund (IMF) as a project resource for technical assistance, and, it was viewed as a successful partnership. The IMF was allowed the flexibility to independently identify problems and to recommend timely measures to address them. This flexibility allowed the IMF to focus on critical topics such as a VAT audit and arrears management.

Next Steps: This evaluation is complete and there are no planned next steps.

Measuring Results of the Philippines Revenue Administration and Reform Project

In Context

The MCC compact with the Philippines was a five-year investment from 2011-2016 of \$385 million in 3 projects: the Kalahi-CIDSS Project (KC), the Revenue Administration Reform Project (RARP) and the Secondary National Roads Development Project (SNRDP). The RARP included two major activities – the Bureau of Internal Revenue (BIR) Administration Reform Activity (RARA) and the Revenue Integrity Protection Services Activity (RIPS). The BIR RARA consisted of 3 components: Electronic Tax Information System, Automated Auditing Tools, and a Public Awareness Campaign. The \$30 million RARP Project is the subject of two independent evaluations; the results of these studies are summarized here. The RARP component represents 7 percent of the total compact. Other components of the compact are the subject of independent evaluations.



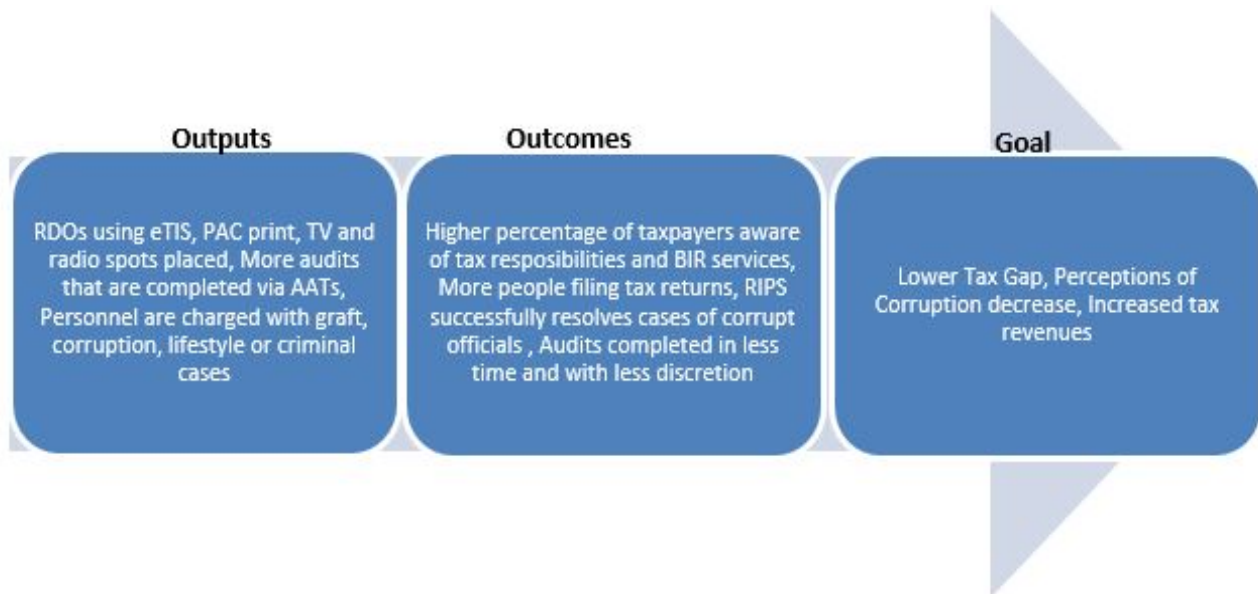
These figures are based on MCC obligations as of September 2016

Program Logic

- A key constraint to economic growth in the Philippines was identified as the lack of fiscal space or government funding for growth-enhancing investments in public goods such as infrastructure and social services (e.g., education and health). In the Philippines, the level of public sector expenditures (as a percentage of GDP) is among the lowest in Southeast Asia. RARP addresses this constraint by aiming to raise tax revenues and reduce tax evasion and revenue agent-related

corruption. The Project consisted of two Activities:

1. Revenue Administration Reform Activity (RARA): BIR's efforts to re-engineer its policies and practices. Under the RARA: there were three sub-activities:
 - a. Electronic Tax Information System (eTIS): The eTIS is the new tax administration (information technology or IT) system intended to replace the current system, the Integrated Tax System (ITS). Specifically, this component funded.
 - a. the procurement and use of equipment and software related to the eTIS, a platform that should provide easier processing of taxpayer forms and transactions through a graphic user interface and a central database,
 - b. the training of BIR staff, and
 - c. an International Monetary Fund ("IMF") resident advisor on tax administration and short-term IMF tax administration specialists as well as other systems and technology consultants to recommend and help implement policy and procedural reforms.
 - b. Automated Auditing Tools (AATS) in the large taxpayer unit. The purchase of software licenses for automated auditing tools, computers and a subscription to a data base service to provide BIR with transfer pricing information and the provision of training for the use of these tools
 - c. Public Awareness Campaign to disseminate information about BIR's reform and enforcement activities.
2. Revenue Integrity Protection Service ("RIPS"): Supporting the Philippines' anti-graft investigation unit within the Department of Finance.



There were several key assumptions underlying the project logic, including:

- Redesign and computerization of BIR operations would be accepted by staff.
- Decreased perception of corruption would lead to more taxpayer compliance and more tax revenue.
- Although RIPS would focus mainly on *administrative* cases, in the *criminal* cases brought by RIPS, other key government agencies, like the Ombudsman and the courts, would cooperate and fulfill their responsibilities.

<https://www.mcc.gov/our-impact/m-and-e>.

For more information, please refer to pages 2-7 of the Philippines M&E Plan, which can be found here:

Measuring Results

MCC uses multiple sources to measure results, which are generally grouped into monitoring and evaluation sources. Monitoring data is collected during and after compact implementation and is typically generated by the program implementers; it focuses specifically on measuring program outputs and intermediate outcomes directly affected by the program. However, monitoring data is limited in that it cannot reflect the full range of targeted outcomes and cannot tell us whether changes in key outcomes are attributable solely to the MCC-funded intervention. The limitations of monitoring data is a key reason why MCC invests in independent evaluations to assess the achievement of a broader set of program outcomes. When feasible, MCC supports impact evaluations, which use a counterfactual to assess what would have happened in the absence of the investment and thereby estimate the impact of the intervention alone. When estimating a counterfactual is not possible, MCC invests in performance evaluations, which compile the best available evidence and assess the likely impact of MCC investments on key outcomes.

Monitoring Results

The following table summarizes performance on output, outcome and objective indicators specific to the evaluated program.

Indicators	Level	Baseline (2011)	Actual Achieved	Target	Percent Co
Activity 1: BIR Revenue Administration Reform Activity					
Tax Gap (The VAT compliance gap for a particular year is the difference between revenues actually collected and the potential revenues that could have been collected given the policy framework that was in place during that year. ¹)*	Objective	46	38	N/A	N/A

Revenue from new and existing business registrants (millions of Philippine Pesos)*	Objective	822,624	1,441,571	1,969,999	54%
Percentage of respondents reporting satisfaction with BIR services	Outcome	79%	85%	N/A	N/A
Processing time of applications for secondary registration (Manual Book of Accounts, minutes)	Outcome	22	12	22	Exceeded (reduction in improvement)
Processing time of applications for secondary registration (Manual Book of Accounts (Loose-leaf, minutes)	Outcome	24	12	24	Exceeded (reduction in improvement)
Processing time of applications for secondary registration (Authority to Print (ATP) receipts/invoices, minutes)	Outcome	39	53	39	Did not meet (reduction in improvement)
Number of new business registrants*	Outcome	1,821,599	2,366,696	N/A	N/A
Sub Activity 1: Electronic Tax Information System (eTIS)					
Number of tax returns (ITS) captured into the system	Outcome	470,104	66,753	N/A	N/A
Number of tax returns (eTIS) captured into the system	Outcome	0	343,748	N/A	N/A
Number of BIR offices using the: Tax Registration System (TRS) module, the Returns Filing and Processing (RFP) module, the Collection, Remittance, and Reconciliation (CRR-1) module, the Case Management System module, and the Audit module of the electronic Tax Information System (eTIS) 1*	Output	0	13	13	100%

Indicators**Level****Baseline (2011)****Actual
Achieved****Target****Percent Complete**

Indicators	Level	Baseline (2011)	Actual Achieved	Target	Percent C
Sub Activity 2: Automated Auditing Tools					
Percentage of audit completed in compliance with the prescribed period of 180 days*	Outcome	1%	4%	50%	6%
Revenue collection per audit*	Outcome	2,500,000	74,556,854	4,300,000	4003
Percentage of audit cases performed using CAATS*	Output	3%	100%	95%	105%
Sub Activity 3: Public Awareness Campaign					
Percentage of respondents aware of change based on specific message - Registration	Outcome	38%	41%	N/A	N/A
Percentage of respondents aware of change based on specific message - Filing	Outcome	11%	10%	N/A	N/A
Percentage of respondents aware of change based on specific message - Payment	Outcome	34%	31%	N/A	N/A
Percentage of respondents aware of change based on specific message - Audit	Outcome	6%	3%	N/A	N/A
Percentage of respondents aware of change based on specific message - Existing BIR services (electronic services)	Outcome	85%	95%	N/A	N/A
Number of activities undertaken based on the Communication Plan (ComPlan) - includes TV Placements, Radio Placements, Print Placements, and BIR revenue regions activities*	Outcome	0	7,925	N/A	N/A
Activity 2: Revenue Integrity Protection Services Activity (RIPS)					
Number of successful case resolutions*	Outcome	28	64	140	32%

Number of successful case resolutions (female)*	Outcome	0	20	N/A	N/A
Perceptions of corrupt activities within DOF agencies (taxpayers)	Outcome	48%	38%	N/A	N/A
Perceptions of corrupt activities within BIR (taxpayers)	Outcome	52%	46%	N/A	N/A
Perceptions of corrupt activities with BOC (taxpayers)	Outcome	74%	72%	N/A	N/A
Perceptions of corrupt activities within BIR (BIR personnel)	Outcome	10%	9%	N/A	N/A
Perceptions of corrupt activities within BOC (BOC personnel)	Outcome	16%	14%	N/A	N/A
Perceptions of corrupt activities within DOF agencies (DOF personnel)	Outcome	7%	5%	N/A	N/A
Time taken to complete investigation*	Outcome	120	493	60	-622
Personnel charged with graft, corruption, lifestyle, and/or criminal cases*	Output	67	207	250	77%
Personnel charged with graft, corruption, lifestyle and/or criminal cases (female)*	Output	N/A	79	N/A	N/A
Number of personnel investigated*	Output	110	468	330	163%

Source: (Closeout ITT from 09 2016, which includes data through the end of the compact)

All indicators are as of the compact end date unless indicated otherwise.

*Indicates data from Q18, which corresponds to annual data from BIR

Targets were met or exceeded in 3 of the 4 output indicators. Targets were met or exceeded in 1 of the 4 outcome indicators.

I.Evaluation Section: For the first study, “Process Evaluation of the MCA-Philippines Revenue Administration Reform Project’s- electronic Tax Information System, Automated Auditing Tools and Techniques, Revenue Integrity Protection

Services and IMF Technical Assistance.”

Evaluation Questions

This evaluation sought to answer the following questions about the different components:

For the automated systems – electronic Tax Information System, Automated Auditing Tools and Techniques:

1. To what extent have the new automated systems such as the electronic tax information system (eTIS) and automated auditing tools (AATs) been implemented in BIR? Why have the systems been implemented or not implemented? What are the causes for the delays and de-scoping in implementation?
2. How have the new systems improved upon the old systems? What were the old system’s functionalities versus the new system’s functionalities?
3. Are staff aware of these new systems? Are they interested in using them? What incentives do they face to use these systems? (political economy considerations of BIR reform).
4. What is their feedback on these systems in general and in terms of improving the image of DOF and BIR?
5. Are there any gender-based differences in the perceptions of changes or improvements through the project or overall impacts? To what extent?
6. Are there any gender-based differences in the perceptions of changes or improvements through the project or overall impacts? To what extent?

For the Revenue Integrity Protection Services component:

1. To what extent have the new automated systems such as the case management system been implemented in RIPS? Why has the system been implemented or not implemented? What political economy considerations can explain how RIPS has (not) been implemented?
2. How has the RIPS sub-activity affected the number of personnel that have been investigated and charged with corruption? This analysis should disaggregate the data by government institution (Department of Finance, Bureau of Internal Revenue and Bureau of Customs.)
3. Did these actions result in successful case resolutions? What is the outcome of these charges (e.g. jail time, sanctions, dismissals, pardons, etc.)?
4. What are the factors that contribute to case resolution?
5. What was the level of seniority of the employee charged/involved?
6. Are there any gender-based differences in the perceptions of changes or improvements through the project or overall impacts? To what extent?

For the IMF Technical Assistance component:

1. What activities and policy changes has the IMF advised the BIR to undertake?
2. To what extent have these activities and policies been implemented?
3. What are the actual or expected outcomes of these activities and policy changes?

This evaluation was managed by MCA Philippines and not MCC. MCC contracted an independent peer review of the evaluation. This peer review along with other evaluation documents can be found here:

<https://data.mcc.gov/evaluations/index.php/catalog/173>

Evaluation Results

This evaluation is a performance evaluation that was conducted near the end of the project. The evaluators relied on key informant and focus group interviews and document review. Three focus group discussions were conducted with BIR staff: one for eTIS and IMF technical assistance, one for AATS, and one for RIPS. The evaluation team also conducted several key informant interviews with AATs and eTIS project managers, former and current deputy directors of RIPS, and RARP's current director. Finally, MCA-P shared several documents with the Evaluation Team, including administrative data on corruption cases charged by RIPS from 2003 to 2015 (by gender and by office – DOF, BOC, and BIR); average response time (minimum, maximum, and mean) to conduct an investigation at RIPS; capacity building training provided to RIPS staff; and MCA-P monitoring and evaluation indicators for the RARP. BIR and RIPS did not share any raw data for verification due to confidentiality issues.

Evaluator	NORC
Impact or Performance?	Performance
Methodology	Key informant and focus group interviews and document review
Evaluation Period	The scoping trip occurred January 2016 followed by data collection in February of 2016. The Compact ended in May 2016.
Outcomes	Please see the Monitoring Results section for specific indicators and actuals. A summary of the evaluation findings, based on the field work of key informant and focus group interviews and document review, can be found below.
Objective-level Outcomes	
Effect on household income attributable to MCC	Not applicable. The ERR model focused on tax revenues at the Bureau of Internal Revenue and not on household income.

The evaluation found the following:

A. eTIS (Electronic Tax Information System):

The first phase of eTIS, although delayed, was implemented, which includes the five modules (a) Tax Registration System, (b) Returns Filing and Processing, (c) Collection, Remittance and Reconciliation, (d) Case Management System, and (e) Audit, within BIR's 13 pilot offices. The roll-out of eTIS to remaining district offices and a second phase of eTIS are planned to be implemented by BIR post compact. BIR staff have had limited exposure to most of the eTIS modules in terms of time (months) and number of staff, but BIR managers and staff are committed to this new system as the current system is failing. The first five modules were planned for October 2014 but delays resulted from contracting issues and limitations discovered during piloting of the modules (four of the five modules had significant defects and the system's capacity to handle additional users was limited.) Full functionality of the first five modules was achieved by May 2016.

The BIR has been using the Integrated Tax System (ITS) system for almost 20 years, and felt the need to upgrade to a new modernized system, since the old system, ITS, has become almost impossible to upgrade or fix. The eTIS-1 system, once fully implemented, would allow taxpayers to be registered directly into a single database. Whereas in ITS this process would take 3-4 days, eTIS-1 will allow BIR to "better identify and locate taxpayers" since more entry fields will be added. Other elements of the eTIS system (five modules) are mentioned above. Even though modules have been rolled out, all had issues requiring resolution. However, BIR expects the new system to significantly improve BIR operations.

Staff are aware of the new systems, but have had limited exposure to the new modules at the time of the evaluation. An eTIS-1 performance review exposed major problems with the eTIS-1 system's capacity to handle large numbers of concurrent users. In addition, it is difficult to comment on how the systems affect the image of DOR and BIR as they have just been rolled out.

B. AATS (Automated Auditing Tools sub-Activity):

Although automated auditing tools have been in use in the Large Taxpayer Service office since 2005, the AATS provided 10 BIR offices with laboratories to train BIR staff and conduct audits increasing the percentage of Large Taxpayer cases using AATS from 3% to 100%. An additional auditing tool, the new 'transfer-pricing' database had not been acquired at the time of the evaluation. The AATS software has greatly facilitated the conduct of certain aspects of audit operations, allowing expedited analysis and validation of taxpayers' large data files to detect potential discrepancies. Auditors reported that, for example, analysis work related to VAT and withholding taxes (to identify potential discrepancies), which may in the past have taken a day or longer to complete, can now be done in a matter of minutes using the ACL software. AATs has helped reduce the number of days to conduct an audit and increased revenues.

BIR offered substantial training to LTS auditors on the use of the AATs tool. However, the skill level of

the auditors varies. The AATs pilot project in the Large Taxpayer Service has been well-supported by most auditors. Problems remain, however, with some auditors complaining of limited access to the laboratory and with other auditors apparently reluctant to use new technologies which make LTS audit operations more transparent. There is mixed feedback on the use of this new tool. While some auditors complained about problems in accessing the ACL tool, and in using this new technology, others reported very favorably regarding their use of the ACL tool in their audit work. As stated previously, it is difficult to comment on how the systems affect the image of DOR and BIR as they have just been rolled out. Even so, BIR faces serious capacity issues in coping with large volumes of tax return data which may erode its credibility.

There was no analysis of gender-based differences for these two components, eTIS and AATS. This analysis was done for RIPS.

C.RIPS (Revenue Integrity Protection Service).

The case management system (CMS) faced numerous delays in implementation, and the sustainability of the CMS is uncertain given the lack of encoders (to upload data). In addition, the department faced high staff turnover. Even so, the capacity building and CMS provided by MCA-P seems to have greatly improved the efficiency of RIPS investigations: the average number of days from Investigative Authority (IA) to Complaint Affidavit went from 892 to 194 and from IA to Case Resolution went from 2582 to 1119. The pace of investigations was and will continue to be hindered by the slow response of other government agencies. The number of personnel investigated by RIPS is higher than pre-compact years, with the largest number investigated at the BOC, see table below for numbers by institution and gender.

Year	Investigated							Charged						
	Total	DOF		BOC		BIR		Total	DOF		BOC		BIR	
		M	F	M	F	M	F		M	F	M	F	M	F
2015	75		2	37	26	4	6	38	1		23	8	1	5
2014	107	1		60	36	5	5	37	1	1	10	12	4	9
2013	87	12	13	20	18	12	12	22		2	11	3	5	1
2012	72	2	6	31	15	10	8	31	3		8	2	11	7
2011	56	6	5	17	8	13	7	21	2		10	5	1	3
2010 (pre-compact)	37	5		12	8	8	4	7		1			6	
2009 (pre-compact)	41		1	12	11	9	8	14			9	3		2

As expected, due to the long time period to resolve cases, fewer cases were resolved. The following table

presents case resolution by gender and type of resolution.

Year	Total	Male					Female				
		Dismiss	Suspended	Fine	Reprimand	Forfeiture of benefits	Imprison	Dismiss	Suspended	Fine	Reprimand
2015	11	1	5	1	1				3		
2014	15	6	1		1	2	1	3	1		
2013	5	1		2						2	
2012	5	1	2	1					1		
2011	15	6	3	2		1		1	1		1
2010 (pre-compact)	3	2						1			
2009 (pre-compact)	0										

In 2011, a special task force/panel or “green lane” was formed within Office of the Ombudsman to deal with the backlog of pending cases. In contrast, some factors hindered RIPS work, such as poor record keeping, the turnover of the Executive Directors and the movement of the RIPS office to multiple locations. Regarding the level of seniority of the employee charged, RIPS did not provide any information on seniority. Taxpayers’ perception of the likelihood that corrupt officials will be caught and punished has not changed nor has their perception of the effectiveness of RIPS changed.

The baseline and second round survey showed no major differences between genders in the perception of corruption within a specific government agency. A similar percent of male and female taxpayers perceives “a great deal” of corruption within the three agencies (DOF, BIR, and BOC.) The largest percent of both males and females perceives “a great deal” of corruption within Bureau of Customs compared to the other two agencies. Female taxpayers are generally less optimistic than male taxpayers regarding catching and dealing with corrupt personnel.

D. International Monetary Fund (IMF) Technical Assistance

IMF advice and focus were redirected half-way through the IMF/MCC program. IMF’s early support for BIR reforms had focused on the development of the reform master plan, institutional strengthening and governance issues. The change in program focus occurred because of problems with BIR’s project management and implementation capacities related to eTIS. In the second half of the program, IMF advice covered (i) development of the 2016-20 Strategic Plan, (ii) expansion of the Compliance

Improvement Strategy, (iii) a new Taxpayer Services Strategy, (iv) establishment of the VAT Audit Group and (v) Arrears Management. As a sign of BIR's commitment, many of the priority reforms identified in the March 2015 IMF report are incorporated into BIR's proposed new Strategic Plan.

The March 2015 IMF "Fourth Annual Review" report, provides a detailed assessment of progress across eight project outcomes areas using approximately 40 indicators. Many of those indicators show that work has started on reform initiatives but had not been completed at the time of the fourth review. Some key reform measures related to VAT audits and Arrears Management that have been successfully piloted are, however, given special attention in this report because of their major compliance impacts. For these two pilots, BIR documented the amount of unreported VAT assessed and collected by the VAT audit staff and the amounts of tax arrears recovered by the arrears management teams. Presumably, as part of its fifth and final reporting under the IMF/MCC agreement, the IMF will prepare another report measuring progress achieved against the eight project outcomes using the same indicators and further reporting on the roll-out of initiatives like the VAT audit and Arrears Management operations.

IMF staff indicated that given (a) the alignment of a reform oriented government, (b) the continuity of the commissions for five years, and (c) the assistance provided by the full time resident advisor and HQ missions, BIR has not taken full advantage of the IMF assistance to achieve stronger results. BIR senior managers also disclosed that the IMF had recently completed a new type of assessment of BIR operations using the recently released Tax Administration Diagnostic Assessment Tool (TADAT). The objective of the TADAT is to assess the relative strengths and weaknesses of a country's tax administration by reference to international best practice across nine performance outcome areas. TADAT will presumably be used to assess BIR's progress in coming years.

BIR managers identified the challenges that they have faced in supporting reform projects while, at the same time, dealing with the demands of their operational responsibilities. It was only the support of the IMF resident advisor that kept some projects "on track". It is important to note that, given the very limited scope of the NORC evaluation and paucity of documentation, it was not possible for the NORC evaluation team to independently verify performance against the various indicators, objectives, and outcomes listed in BIR reform-related documents.

II.Evaluation Section: For the second study, "Baseline and Follow-up Analysis of Survey of Taxpayers and Officials for Assessing the Performance of MCA-Philippines Revenue Administration Reform Project"

Evaluation Questions

This study sought to answer whether the following changed over the course of the project:

- a. taxpayer awareness about tax administration processes (tax registration, filing, payment and audit) and about tax obligations;

- b. taxpayers' experience and satisfaction with registration, filing, payment and audit;
- c. taxpayers' perceptions about paying taxes in general;
- d. proportion of taxpayers that pay their taxes;
- e. relative importance of factors influencing tax compliance;
- f. taxpayers' perception about corruption within the three agencies (DOF, BIR, and BOC);
- g. DOF, BIR and BOC personnel's perception of corruption in their own agency;
- h. incidence of corrupt activities within the DOF, including BIR and BOC; and
- i. extent of awareness of DOF, BIR, and BOC personnel about the RIPS and about the actions taken by the RIPS against corrupt activities.

This evaluation was managed by MCA Philippines and not MCC. MCC contracted an independent peer review of the evaluation. This peer review along with other evaluation documents and datasets can be found here: <https://data.mcc.gov/evaluations/index.php/catalog/173>

Evaluation Results

This evaluation is a performance evaluation, comparing baseline to follow up data, that was conducted near the end of the project. The evaluators relied on baseline surveys and follow-up surveys of taxpayers and employees of the three government agencies BIR, BOC and DOF.

Evaluator	NORC
Impact or Performance?	Performance
Methodology	Before and after comparison using surveys of taxpayers and employees
Evaluation Period	Baseline surveys were conducted from July to December 2014, and follow-up surveys were conducted from September to December 2015. The surveys were administered to taxpayers (sample size: 720 baseline and 776 follow up) and employees of BIR, BOC and DOF (sample size: 893 baseline and 778 follow up). The Compact ended in May 2016.
Outcomes	<ul style="list-style-type: none"> Awareness of registration, filing, payment and audit processes: Both before and after, taxpayers had good understanding of all processes, except Audit. Taxpayer awareness and use of BIR <i>electronic</i> services did go up during the project: <ul style="list-style-type: none"> 85% (at baseline) and 95% (at endline) of respondents had heard of any electronic service 15% (at baseline) and 7% (at endline) did NOT use any BIR electronic service

Alternatively, there were some negative trends, too.

- 28% (at baseline) and 19% (at endline) believed that electronic services greatly improved transactions with BIR.
- Overall, statistically significant improvements, though somewhat marginal, were observed in terms of respondent opinions on registration time as well as on the overall registration process between 2014 and 2015. No overall changes were noted in terms of the filing process. Although more than one fourth of the taxpayers who completed audit had negative opinion about the audit process, no significant changes in taxpayer perceptions of the audit process were observed between the 2014 and 2015 data.
- Comparison of taxpayers' perception about their tax obligations and importance of paying taxes in general indicate that there was marginal improvement in perception about obligation of paying fair taxes. While exploring whether taxpayers' perceptions and exposure to the public awareness campaigns launched by the BIR influenced perception about tax obligations, the analysis found that those who got exposure to both the "Carry" campaign and "Angat Pa, and Pinas" campaign were statistically significantly more likely to demonstrate positive attitudes towards their tax obligations.
- Tax compliance: The two rounds of self-reported compliance data indicates nearly universal compliance with marginal improvement in tax compliance over time from 98 % to 99%.
- Taxpayers responded that they pay correct tax out of personal integrity (60%) and the fear of being fined or jailed (50%) in contrast to fear of being audited, belief that taxes are used for worthwhile public services or because their peers pay. At follow up, there was a statistically significant increase in respondents paying correct taxes due to fear of being audited (from 25% to 31%) and the belief that taxes collected are used for worthwhile public service expenditures (from 23% to 29%).
- Overall, personnel from DOF, BIR, and BOC, reported a high level awareness of RIPS. According to employees, the threat of personnel dismissal is viewed as one of the most effective mechanisms to deter corruption.

Objective-level Outcomes	<ul style="list-style-type: none"> • The percentage of taxpayers believing there is a great deal of corruption in the DOF and BIR decreased significantly between 2014 and 2015, (DOF from 48% to 38% and BIR from 52% to 46%) possibly indicating an improvement in corruption perception among the taxpayers. On the other hand, the percentage of taxpayers believing there is a great deal of corruption in the BOC did not change (from 74% to 72%.) • Perceptions of corruption in the DOF, BOC and BIR differ greatly between taxpayers and agency personnel. A far higher percentage of taxpayers compared to personnel believed corruption in all three agencies to be extensive. Agency personnel's perception did not change significantly from 2014 to 2015. • Approximately one third of the taxpayers surveyed faced bribe <i>solicitation</i> during 2014 and 2015, and there was almost no change in the incidence of bribe <i>solicitation</i> between 2014 and 2015. The findings reveal that compared to other taxpayers, Large Taxpayer Services (LTS) taxpayers were more frequently approached for bribes by the BIR personnel. A smaller percentage of LTS taxpayers were <i>solicited</i> for bribes by BIR personnel in 2015 as compared to 2014. Despite this decrease, the reported incidence of <i>paying</i> bribes by the LTS respondents did not change between the two rounds.
Effect on household income attributable to MCC	Not applicable. The ERR model focused on tax revenues at the Bureau of Internal Revenue and not on household income.

Lessons Learned

A primary contributor to the successes realized during the Compact was the strong support of RARP at the highest levels within the Philippines Government, most notably, the President, the Secretary of the Ministry of Finance, and the Commissioner of the BIR. It is questionable whether a similar project as ambitious as RARP would be possible without such support. The sustainability of RARP's outputs and outcomes will now depend on whether the new administration has a similar level of commitment and a similar sense of urgency.

An Important lesson for MCC on projects involving major IT systems installation and adoption is that project design must ensure no more than a **manageable** level of customization to off-the-shelf software systems. The volume of modification and customization of software in the eTIS system was one of the primary sources of implementation delays which ultimately reduced the scope and reach of the final product.

The development of eTIS software was started by BIR prior to the beginning of the Compact by a software consultant engaged by BIR. Shortly after the Compact began, it became clear that software development work needed to be restarted almost from scratch. Dealing with procurement issues, redefining user requirements, and implementing new organizational measures within BIR to take primary ownership of the project all contributed to delays in the first two years of the Compact. Continued due diligence on the eTIS development effort might have allowed MCC, MCA-P and BIR to identify and deal with these issues sooner.

At two of the government agencies (BIR and DOF), procurements and decision making were hampered because government employees, who approve a procurement or accept a product as complete, fear that they might be subject to financial loss or charges of misconduct. This reluctance to take ownership and be proactive in implementing projects slowed both the eTIS and RIPS activities. MCC had not identified this risk during due diligence.

Any complicated information system reform, such as eTIS and AATS, relies on the institutional ability to provide guidance to software designers and train all appropriate staff. In addition, a large change in day-to-day operations, such as eTIS, requires experienced full-time staff assigned to these projects to ensure greater accountability and timely delivery of project outputs and outcomes.

In terms of staff acceptance of eTIS and AATS, use of current licenses and the Transfer Pricing database should be closely monitored by BIR management to ensure that auditors have access to and use these systems in the conduct of their audit cases. Those auditors who are reluctant to embrace modern audit practices and tools and to use the new eTIS modules (especially CMS) should be counseled and subject to transfer or other sanctions in appropriate cases.

On the project's Public Awareness Campaign (PAC), the campaigns were locally well-received, won awards in the local PR industry for their innovative messaging and were deemed effective in improving taxpayers' understanding of their tax obligations, per the evaluation. Even so, the impact on tax compliance was not measured by either the PR firm or the evaluation. In the future, MCC should track public awareness efforts in relation to the desired behavioral change (in this case, tax compliance) to better inform which campaigns should be continued and which should be closed. This strategy will require close coordination between implementers and M&E.

This project was the first time that MCC engaged the International Monetary Fund (IMF) as a project resource for technical assistance, and, it was viewed as a successful partnership. Rather than to follow a narrow, prescriptive scope of pre-identified services, the IMF was allowed the flexibility to independently identify problems during the compact period and to recommend timely measures to address them. This flexibility allowed for a range of activities that were not identified initially but were responsive to the prevailing circumstances and the current operational environment. As a result, the IMF advisory activities

were free to focus on several critical topics including VAT audit and arrears management.

In terms of RIPS, despite the fact that the case management system was not fully operational until toward the end of the compact, the project succeeded in improving that investigative unit's ability to bring cases to the point of prosecution as cited in the report: the average number of days from Investigative Authority (IA) to Complaint Affidavit went from 892 to 194. Even though case resolution went from 2582 to 1119 days, it still takes, on average, more than 3 years to resolve a case, because of other entities in the judicial system, and even the Department of Finance, which refused to establish internal mechanisms for dealing with administrative cases. . To assess this issue, the RIPS should track response time by agency and highlight both the problematic and responsive agencies. In addition, MCC should address this risk by including other entities in the project, assuming buy-in can be obtained.

Next Steps

This evaluation is complete and there are no planned next steps.

Endnotes

1. Definition aligned to the IMF definition of a VAT compliance gap. From Hutton, E and Wentworth, D. Revenue Administration Gap Analysis Program— The Value-Added Tax Gap In The Philippines. 2013
2. These figures are calculated using all non-evaluation indicators with targets in the RARP Activity.